

Testimony of the Texas Taxpayers and Research Association on HJR 2
House Ways and Means Committee
July 11, 2023

1. Pilot Project for 20% Appraisal Cap/Circuit Breaker on Non-Homestead Real Property

- Yesterday the Lt. Governor and the Speaker announced the 20% appraisal cap, or circuit breaker, as a pilot project.
- The enabling legislation for the pilot project would add a new § 23.231 to the Tax Code, and that new section would expire on December 31, 2026. (See HB 2 as filed, page 21, line 2.)
- The constitutional amendment in HJR 2 authorizing the 20% appraisal cap is not a pilot project by its terms and does not have an expiration date.
- We would like to see HJR 2 amended to authorize the legislature only to create a pilot project that would expire on December 31, 2026.

(n) This subsection does not apply to a residence homestead to which Subsection (i) of this section applies. Notwithstanding Subsections (a) and (b) of this section, the Legislature by general law may create a pilot program to limit the maximum appraised value of real property for ad valorem tax purposes in a tax year to the lesser of the most recent market value of the property as determined by the appraisal entity or 120 percent, or a greater percentage, of the appraised value of the property for the preceding tax year. The general law enacted to create a pilot program under this subsection may prescribe additional eligibility requirements for the limitation on appraised values authorized by this subsection. A limitation on appraised values authorized by this subsection:

(1) takes effect as to a parcel of real property described by this subsection on the later of the effective date of the law imposing the limitation or January 1 of the tax year following the first tax year in which the owner owns the property on January 1; and

(2) expires on January 1 of the tax year following the tax year in which the owner of the property ceases to own the property.

(o) Subsection (n) expires on December 31, 2026.

- These changes would create a true pilot project.
- The Legislature and the voters of this state can review the results of the pilot project in 2027 and make a fresh, unfettered decision on a 20% appraisal cap/circuit breaker.

2. \$100,000 Homestead Exemption for School Property Tax

Table 1: Historical Homestead Exemption as % of Median Home Price

| Tax Year | Homestead Exemption | Median Home Price | Exemption as % of Median Home Price |
|----------|---------------------------|-------------------|-------------------------------------|
| 1978 | \$5,000 | \$47,989 | 10.4% |
| 1997 | \$15,000 | \$85,706 | 17.5% |
| 2015 | \$25,000 | \$177,500 | 14.1% |
| 2021 | \$40,000 | \$262,000 | 15.3% |
| 2023 | <i>proposed</i> \$100,000 | \$319,000 | 31.3% |

1997-2023 median home prices are for January of the tax year from the Texas Real Estate Research Center at Texas A&M University.

1978 median home price is an estimate, applying the Federal Reserve Economic Data (FRED) All-Transactions House Price Index for Texas to the 1997 median home price.

Table 2: Initial Incidence of School Property Tax FY2025 (in billions) Under Current Law

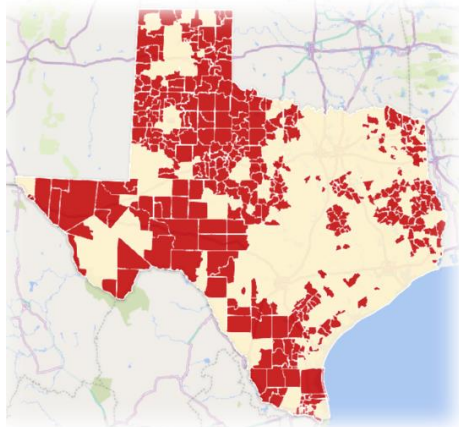
| | Total Tax Burden | | Business Share | | Individual Share | |
|--------------------------|------------------|--------|----------------|-------|------------------|-------|
| | \$ | % | \$ | % | \$ | % |
| FY25 School Property Tax | \$48.33 | 100.0% | \$25.11 | 52.0% | \$23.22 | 48.0% |

Source: Texas Comptroller of Public Accounts, *Tax Exemptions and Tax Incidence (February 2023)*, p. 71, Table 33.

Table 3: Initial Incidence of School Property Tax Relief Under HB 2, 2nd C.S., FY2025 (in billions)

| | Total Tax Burden | | Business Share | | Consumer Share | |
|---------------------------------|------------------|--------|----------------|-------|----------------|--------|
| | \$ | % | \$ | % | \$ | % |
| FY25 School Property Tax | \$48.33 | 100.0% | \$25.11 | 52.0% | \$23.22 | 48.0% |
| Rate Compression (10.7 cents) | -\$3.70 | 100.0% | -\$1.92 | 52.0% | -\$1.78 | 48.0% |
| Homestead Exemption (\$100,000) | -\$2.65 | 100.0% | \$0.00 | 0.0% | -\$2.65 | 100.0% |
| Proposed FY2025 Tax | \$41.98 | 100.0% | \$23.19 | 55.2% | \$18.79 | 44.8% |

Average Home Value in Texas ISDs



- 1,014 ISDs in Texas.
- 397 ISDs have average home value less than \$100,000.
- Those ISDs are mostly rural.